

Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

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FM AMEMBASSY FREETOWN

TO SECSTATE WASHDC 7685

INFO AMEMBASSY CONAKRY

AMEMBASSY MONROVIA

C O N F I D E N T I A L FREETOWN 1554

EO 11652: GDS

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SUBJ: DIAMOND SALES BOOST REVENUES

REF: (A) FREETOWN 1331, (B) FREETOWN A-7, (C) 77 FREETOWN A-33

1. A HARD PRESSED ECONOMY HAS AGAIN RECEIVED A RESPITE. LAST YEAR SUBSTANTIAL WORLD PRICE RISES IN COFFEE AND COCOA OFFSET A GROWING IMPORT BILL AND REDUCED THE TRADE GAP DESPITE DECLINES IN FOREIGN EXCHANGE EARNINGS FROM DIAMONDS. GOVERNMENT'S EXTRA-BUDGETARY SPENDING AND REDUCED COFFEE AND COCOA PRICES ARGUED FOR WORSENING BALANCE OF PAYMENTS POSITION AND BUDGETARY CRISIS IN 1978. HOWEVER, THE SPECTACULAR HIKE IN WORLD DIAMOND PRICES COMBINED WITH INCREASED LEGAL DIAMOND SALES HAVE IMPROVED THE NATION'S RESERVES, HOLDING AT BAY THE IMMEDIATE CONSEQUENCES OF FISCAL MISMANAGEMENT.

2. GOSL REDUCED DIAMOND EXPORT DUTIES FROM 7-1/2 PERCENT TO 2-1/2 PERCENT ON FEBRUARY 1, 1978. THE EFFECT OF THIS DECISION WAS TO MAKE IT AS PROFITABLE TO SELL DIAMONDS LEGALLY AS ILLEGALLY. PRESIDENT STEVENS FINALLY REALIZED THE IMPOSSIBILITY OF POLICING SMUGGLING, ACCEPTING THE ALTERNATIVE OF INCREASING

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FOREIGN EXCHANGE BY ENHANCING LEGAL SALES RATHER THAN ATTEMPTING TO MAINTAIN HIGH EXPORT DUTIES. THIS OPPORTUNE DECISION CAME IN TIME TO REAP THE BENEFITS OF THE RECENT SPECULATIVE JUMP IN WORLD DIAMOND PRICES. AS A RESULT, SIERRA LEONE GARNERED THE BENEFITS OF ENHANCED VALUE AND VOLUME FROM ITS DIAMOND SALES. TOTAL VALUE OF EXPORTS FOR FEBRUARY AND MARCH OF 1978 WERE MORE THAN FIVE TIMES THOSE FOR THE SAME PERIOD IN 1977,

E.G., CHART BELOW. IRONICALLY, THE REDUCED EXPORT TAX PLUS HIGH PRICES RESULTED IN A DOUBLING OF GOVERNMENT REVENUE RATHER THAN THE FEARED REDUCTION.

TOTAL EXPORT UNDER THE ALUVIAL
DIAMOND MINING SCHEME

FEBRUARY	1977	1978
FEBRUARY	LE2.02	LE10.48
MARCH	LE2.69	LE14.52

IN ADDITION, THE NATIONAL DIAMOND MINING COMPANY'S (DIMINCO) MARCH SALE BROUGHT IN AN ADDITIONAL THREE MILLION DOLLARS DUE TO A FORTY PERCENT SURCHARGE LEVIED BY THE CENTRAL SELLING ORGANIZATION.

3. EMBASSY COMMENT: INCREASED REVENUES WILL HAVE THE EFFECT OF A) EXTENDING THE LIFE OF DIMINCO FOR PERHAPS ANOTHER THREE TO FIVE YEARS, B) IMPROVING THE BALANCE OF TRADE, AND C) INCREASING FOREIGN EXCHANGE HOLDINGS. HOWEVER, THESE POSITIVE EFFECTS MAY BE OFFSET BY GOSL'S PROPENSITY TO SPEND. THE GOVERNMENT IS STILL LOOKING FOR US DOLS200 MILLION TO FINANCE FACILITIES FOR THE 1980 OAU CONFERENCE.
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